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CHILE: The Christian Democrats say they are ready to break off officially their talks with the government and are planning subsequent maneuvers against the regime.

The "dialogue" went into limbo following two unproductive meetings between party and government leaders on 30 July. The Christian Democrats reiterated previously stated demands that include the reincorporation of the military into the government, and President Allende tried, apparently unsuccessfully, to stall for time. On 31 July, Party President Aylwin sent Allende a letter that again set forth the Christian Democrats' terms for a political truce. According to Aylwin, Allende has promised to reply today.

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In the meantime, violent incidents are on the rise, with the most serious cases involving government attempts to requisition idle trucks. The government, however, may be making some headway in negotiating an end to the partial bus owners' strike, and a break could also be forthcoming in the stand-off between the regime and striking truck owners.

Allende probably is inclined to try to ease political as well as labor unrest through compromise, but he undoubtedly is genuinely concerned that the Socialist Party might leave the Popular Unity coalition if it decides he has "betrayed the revolution." Allende needs to make a reply to the Christian Democrats that will keep the dialogue alive and keep his governing coalition together.

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ROMANIA-UN-NONALIGNMENT: Bucharest will try to use UN Secretary General Waldheim's attendance at the nonaligned summit next month to legitimize its own participation and to further its foreign policy "principles."

Waldheim will be in Romania from 5 to 7 August and will almost certainly be received by President Ceausescu. Nonalignment and the Middle East situation will undoubtedly be the primary topics of their discussions. Following a vacation in Austria, Waldheim may visit Egypt, Israel, and Jordan possibly in late August and early September, before going on to Algiers to become the first secretary general of the UN to attend a nonaligned summit.

Waldheim's presence at the conference, slated for 5 to 8 September, will dovetail with Romania's decision to break ranks with its Warsaw Pact allies by sending an observer to the meeting. Bucharest will probably argue that the presence of such diverse political voices as the UN Secretary General and Fidel Castro demonstrates the correctness of Romanian foreign policy. From Bucharest's point of view, this approach could provide useful leverage in the event that the Romanians are criticized again by their Pact allies for yet another show of independence.

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INTERNATIONAL LABOR: Tentative agreement has been reached to hold a meeting of trade union officials from Eastern and Western Europe in Geneva next January coincident with the International Labor Organization (ILO) regional conference.

Last weekend six trade union leaders--three from the East and three from the West--met in Vienna to discuss and schedule the January meeting. A steering group had been formed in 1971 to plan for such a conference. The joint communique issued after the Vienna meeting provides that East-West labor talks will be held in January; an Austrian trade unionist will chair the session.

The communique is vague on participation and agenda, reflecting the concerns of the Western negotiators, all of whom are members of the International Confederation of Free Trade Unions (ICFTU). The ICFTU members have emphasized that the session can succeed only if differences in political systems are respected and the agenda is limited to functional issues falling properly in the trade union domain. Moreover, each national ICFTU affiliate is to make its own decision about attendance at the session. This cautious approach was required because the Soviets have consistently sought to include political issues.

The agreement reached in Vienna last weekend will permit Communist unions in the West, including the major ones in France and Italy, to attend the session next January. Representatives of Greece, Portugal, and Spain will not be invited. East Germany will be represented.

The Vienna agreement is a qualified victory for Soviet trade union boss Shelepin, who was the principal Communist participant. He has long pushed for a pan-European gathering to demonstrate the progress being made toward detente, and the communique highlights the parallel with improving governmental relations in Europe. Shelepin probably would have preferred, however, that the meeting in January be staged with no connection to the ILO.

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JAPAN: The Japanese shipbuilding industry, which accounts for about half of world ship construction by tonnage, is booming despite this year's appreciation of the yen. Foreign orders for ships dropped after the yen appreciation in 1971, but rebounded in the last quarter of 1972 and have remained high. In April and May of this year, Japanese yards contracted to build 83 vessels for export at a cost of nearly \$1 billion. Almost two thirds of this was for 20 tankers, including three 400,000-ton crude carriers and two sophisticated liquified natural gas carriers. Japanese yards insist that contracts be written in yen in order to protect themselves against further currency realignments.

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EAST GERMANY: Walter Ulbricht's death is unlikely to have a major impact on the East German regime. Ulbricht had been without power since Erich Honecker replaced him as Social Unity (Communist) Party general secretary in May 1971. Honecker is in firm control of the political apparatus, in part because of the uncertain health of his presumed rival, Minister-President Willi Stoph. The disposition of Ulbricht's remaining positions, chairman of the State Council and honorary party chairman, may provide some insights into the relative standings of Stoph and other leaders close to the top.

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Libya: Negotiations with the oil companies have been resumed, and government fire is again concentrated on the major independent producers, Occidental and Oasis. The government has threatened a complete take-over on 15 August unless a settlement including government acquisition of 51 percent of company assets and an oil buy-back agreement was concluded. This proposition represents a major withdrawal from the "100-percent participation" that Libya was demanding earlier.

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USSR-Egypt-US: Two Soviet tankers are en route to the US with over 90,000 tons of Egyptian crude oil. Previously, most oil obtained by the USSR from Egypt was delivered to Eastern Europe and Cuba. Moscow began deliveries of crude oil to the US last year, all from Soviet production.

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International Monetary Developments: The dollar remained steady on European money markets yesterday. Traders, however, are concerned about German monetary policy, fearing that tightening of credit will again exert upward pressures on the mark.

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EC-US: Negotiations on compensation due the US because of tariff increases arising from enlargement of the EC will probably not progress before late September, when the EC Council will consider further concessions to its trading partners. In the meantime, EC working groups will attempt to improve the EC offer. There have been signs recently of some flexibility by Paris on this issue.

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European Space Conference: European participation in the US post-Apollo Spacelab project was assured this week. A possible French roadblock to approval was removed by the British decision to pay part of the costs of a new French launcher project. These agreements, including French support for a navigational satellite of interest to the UK, have also opened the way for establishing a unified European Space Agency next year.

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Commonwealth Conference: The nine-day meeting of the Commonwealth heads of government opens today in Ottawa. All signs point to a quiet conference, unlike the 1971 affair, which was dominated by hot debate on Britain's relations with South Africa.

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West Germany - Bulgaria: Bonn agreed yesterday to establish diplomatic relations with Bulgaria. The West Germans will begin negotiations with Budapest later this month on establishing relations; Hungary and Albania are now the only states in Eastern Europe without diplomatic relations with Bonn.

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**These items were prepared by CIA without consultation with the Departments of State and Defense.*

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